BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter Of	)	
	)	
Amendment of Part 36 of The	)	CC Docket No. 80-286
Commission's Rules And	)	CC Docket No. 96-45
Establishment of a Joint Board	)	

COMMENTS OF ITCs, INC. IN RESPONSE TO THE COMMISSION'S NOTICE OF PROPOSED RULEMAKING AND NOTICE OF INQUIRY

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April 12, 1996

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GENERAL ISSUES RELATING TO HIGH-COST ASSISTANCE

ITCs, Inc., an economic cost consultant to independent telephone companies serving America's great rural hinterland, by Counsel, on behalf of Chariton Valley Telephone Company, Columbine Telephone Company, Cunningham Telephone Company, ETEX Telephone Cooperative, Filer Mutual Telephone Co. - Idaho, Filer Mutual Telephone Co. - Nevada, Mokan Dial, Inc. - Kansas, Mokan Dial, Inc. - Missouri, South Central Telecommunications of Kiowa, South Central Telephone Association - Kansas, South Central Telephone Association -Oklahoma, Tri-County Telephone Association, Inc., TCT West, Inc. and Wiggins Telephone Association, respectfully comment as follows[1]:

[1] Each of the above-listed telephone companies serve very rural, remote and sparsely populated areas. In each case, these telephone companies initiated service after 1950 and the initiation of service to the public was made possible by virtue of governmental policies promoting Universal Service.

Introduction: Universal Service Funding has Worked Historically: Because the Commission has historically sought to promote and protect Universal Service in rural areas through the Universal Service Fund ("USF") and the dial equipment minute ("DEM") weighing support mechanisms, rural Americans have benefitted from new and improved service. Indeed, the manner in which the United States has achieved and maintained Universal Service is envied in both developed and developing nations. But, promoting and protecting Universal Service has become considerably more difficult in today's era of competition and advancing telecommunications technologies and applications.

In the context of modernizing Universal Service policies, the Telecommunications Act of 1996 requires the FCC to undertake a very fine balancing act. On the one hand the Act was passed to promote competition in all markets including local exchange telephone services. On the other hand, Congress sought to craft it legislation to require the FCC to maintain and indeed promote Universal Service. It is notable that the Act was drafted in this manner because it recognizes that when competition was introduced into the rail, bus and airline industries, rural areas lost out. Instead of rural areas gaining through the process of competition these important infrastructure industries dried up or left the public with only token service. Consequently, the FCC does not have the option of willy nilly forgetting about the historic effects of competition on rural, insular and high cost areas under the Telecommunications Act of 1996. This is so, because Congress charged the FCC with the difficult responsibility of reconciling diametrically opposed economic principles. Put another way, Congress makes clear that Universal Service is socially beneficial, but the fact

of life is that it may not be economically beneficial to the service provider in the absence of USF support.

It is in this context that Commentors submit, that the likelihood of competitors coming into rural exchange areas, makes it ever more important that there be adequate industry support mechanisms to ensure that vital telephone services in rural America remain affordable to the public and at rate levels that are reasonably comparable to rates charged for similar services in urban areas. It is the public, not the incumbent LECs nor the would-be competitors that the FCC is charged to protect through Universal Service support.

The Telecommunications Act of 1996 provided for some novel and interesting concepts for Universal Service. The concepts of "quality service" is interesting, but undefined. "Quality service" can only be realized when a company is dedicated to quality. In rural, insular, and high cost areas, such quality comes only at a premium to the service supplier. But, ostensibly, this is the price competitors were willing to pay for the opportunity to bring competition to the local exchange under the Telecommunications Act. Therefore, there should be no qualms about the FCC implementing the Act in totality. Thus, it is incumbent upon the FCC to insure that "quality service" continue in areas that currently have it; further to ensure that areas that do not have such service be provided with it in the future.

It is a known fact that cellular service does not provide the same clarity of conversation as we have come to enjoy from landline telephony. Does cellular service therefore constitute service of inferior quality? It is also a fact that the United Telephone Company and US West, two large company proponents of the Census Block Group Plan, have a reputation for poor service in rural, insular and high cost areas. And, isn't it ironic

that these two known service quality abusers (even under rate of return regulation) would now propose a system (Census Block Group Plan) that would compensate them for providing service in name only -- allow them to receive revenues under the Census Block Group Plan without requiring them to invest money into areas that want for quality service. There is public record that these companies have been perverting the system under rate of return regulation by not investing in the rural areas; and now they propose to debauch a new system -- Census Block Groups -- to milk their service areas to enhance their bottom lines until their rural exchange areas become devoid of telephone service. Given the track record of these two companies and their modern day "competitieve mindset," it is fair to conclude that they have little or no intent to rebuild the decrepit telephone plant in their rural areas, but rather just to collect USF for as long as possible. In contrast, the independent telephone companies that have spent a lifetime of hard work and reinvested their earnings in providing "quality service" in the rural, insular and high cost areas, would be required to live with some arbitrary and irrelevant estimate of the cost of providing service, which in the small high-cost areas they serve may leave the public disadvantaged. Consequently, Commentors submit that it is imperative that any USF funding be cost based, so that service providers become obligated to first install the plant as a condition precedent to receiving any USF. Commentors further submit that surrogate funding such as the Census Block Group Plan inherently does not require a commitment to service (rather it would promote abuses); in fact it would destroy Universal Service contrary to the intent of the Telecommunications Act of 1996.

The concepts of "affordability," "rates that are reasonably comparable to rates charged for similar services in urban areas" and "a provider of...services shall provide such services to its subscribers in each State at rates no higher than rates charged to its subscribers in any other State" require a different way of approaching and calculating Universal Service Funding. The current system falls short in providing the proper base for developing the underlying rates and the Census Block Group Plan does not accurately estimate the true amount of funding required to maintain Universal Service. These concepts require that the costs of the underlying purchased services, **access charges and wholesale rates for resold services** also be priced to be affordable and at "rates that are reasonably comparable to rates charged for similar services in urban areas". **This concept is critical**. When the access charges and wholesale rates for resold services are at a level that does not permit "affordability" or "rates that are reasonably comparable to rates charged for similar services in urban areas" and these are requirements that must be adhered to, the competitive providers will not provide service in these areas. It is just economics. At that point one of two things will happen, the service will be provided above "affordable" or "reasonably comparable rates" which is contrary to the letter as well as the intent of the Act, or in the alternative the service will not be provided at all which is also contrary to the letter and spirit of the Act. The concepts of "affordability," "rates that are reasonably comparable to rates charged for similar services in urban areas" and "a provider of...services shall provide such services to its subscribers in each State at rates no higher than rates charges to its subscribers in any other State" can only be implemented when the underlying service provider receives the Universal Service Funding from a source that takes into consideration all of the factors that

cause high costs. This information only resides at the interstate level and more specifically at NECA. Should the Universal Service Fund be other than totally interstate, then we would have to deal with the issue of average state costing. States such as Wyoming, North Dakota and South Dakota with low densities, would have much larger statewide average costs than would states such as New Jersey and Rhode Island. How could there be "rates that are reasonably comparable to rates charged for similar services in urban areas" utilizing only state universal service fund data instead of an interstate universal service fund or in the alternative utilizing a combination of a state and interstate universal service fund. Utilizing both a state and interstate universal service funds would make "rates that are reasonably comparable to rates charged for similar services in urban areas" and from State to State nearly impossible to implement.

To implement the Act changes are required in the current system. The current system of DEM Weighting and Gross Allocator leaves the companies in rural, insular and high cost areas with access rates at two to five times the access rates of their counterparts in urban areas in both the interstate and intrastate jurisdictions. The Census Block Group Plan does not provide for underlying access rates that "... are reasonably comparable to rates charged for similar services in urban areas" because the Plan cannot accurately predict the cost of providing service in every Census Block Group. For small companies in rural, insular and high cost areas, where the Census Block Group Plan underestimates the amount of USF, it would have a devastating effect on the incumbent provider. And, because there would not be sufficient funding, no other provider would be willing to provide service and Universal Service would be destroyed, contrary to the provisions of the 1996 Act.

The current system is lacking and unable to resolve these issues for the following reasons:

1. USF is calculated independently of the Cost Study. Therefore, the total of USF and the Cost Study revenues seldom if ever equal one. They almost always equal less than one or more than one. This type of scenario allows for "gaming the system."
2. The current USF funding mechanism is calculated to leave rural, insular and high cost areas with high costs and rates that are higher than the nationwide average, because the support does not start flowing until costs are greater than 115% of the nationwide average.
3. The current USF funding mechanism also has a two year delay in providing funding for new investment.
4. The current Dial Equipment Minute weighting factor is a form of Universal Service that leaves the rural, insular and high cost areas with very high access rates because it allocates the most of the switch revenue requirement to the access area and not to a separate fund.
5. The current transport allocation method does not take into consideration the high cost of providing transport in rural, insular and high cost areas.
6. The current system does not consider the fact that rural subscribers use only about one half to two thirds of the minutes per access line per month that are utilized on a nationwide average basis, because rural subscribers generally have very small local calling areas. So even if the cost per access line were exactly the same the cost per minute of use would be double the cost per minute of use in urban areas. This issue must be addressed under the new Act.

The Census Block Group methodology is lacking and unable to resolve these issues for the following reasons:

1. The Census Block Group methodology promotes "gaming the system". A company has only to be the provider of service to get Universal Service Funding. Such funding is based on the amount of funding for each access line in the Census Block, not on the true cost of providing the service nor on the dedication to quality of service. Currently, it takes an abnormal amount of time first to define the lack of "quality service" and then to institute action to require additional investments. During all this time the Census Block Plan would provide additional funding for the incumbent provider, whereas under a cost based plan the incumbent would only get paid on the investments made. Those Census Blocks that have sufficient cost built in will have a potential for a large number of service providers while those Census Blocks that have less than sufficient cost built into their Census Blocks will not draw a competitor and will tax the existing provider. Carrying this a step further, within a Census Block, the provider will serve those customers that are closest to the backbone cable (where the greatest profits are found) and be more reluctant to provide service to the area furthest from the backbone cable (the lower profitability). At least under a cost based system there is an incentive to provide service to the subscribers on the outer fringes of the serving areas.
2. The Census Block Plan does not take into consideration the usage per access line that is so essential to "rates that are reasonably comparable to rates charged for similar services in urban areas."

Set forth below, Commentors propose a "Per Minute of Use Universal Service Plan" that, if adopted, would allow for implementation of every aspect of Section 254 of the Telecommunications Act of 1996.

Specifically, the Plan allows for:

(1) Quality services being available at just, reasonable and affordable rates;

(2) Access to advanced services;

(3) Customers in all regions of the Nation including low-income consumers and those in rural, insular and high cost areas having access to telecommunications and information services;

(4) All telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service;

(5) Specific, predictable and sufficient Federal and State mechanisms to preserve and advance universal service;

(6) Access to advanced telecommunications services for schools, health care, and libraries;

(7) Rates that are reasonably comparable to rates charged for similar services in urban areas;

(8) Competitively and technology neutral assistance; and

(9) A method to promote toll and resale competition in rural areas while maintaining the monopoly efficiencies of low density rural, insular and high cost areas.

Plan Summary

THE PER MINUTE OF USE UNIVERSAL SERVICE PLAN

THE PLAN AND THE SOLUTION

Establish a High Cost Fund for Low Usage/Density Common Line, Switching and Transport Facilities.

1. This plan establishes a level playing field that will promote competition in rural areas.

2. This plan is usage sensitive in that the higher the usage per access line the lower the dependency on a Universal Service Funding Mechanism. That is, as usage goes up, the requirement for USF goes down.

3. This plan eliminates all other types of support such as Long Term Support, DEM Weighing, RIC Charges, etc., except for Lifeline and Link-Up.

4. This plan helps maintain Nationwide Average Toll and Local Rates between companies and regions because it provides for underlying rates that are reasonably comparable to rates charged for similar services in urban areas. Further, resultant lower access charges will promote robust IXC competition for rural markets.

This Plan would apply to Rate of Return regulated companies and all companies utilizing the current Jurisdictional Separations, Part 36 and could be adapted to rural areas of price cap LECs. The Universal Service Fund would be calculated on a current basis, along with the cost study and would have to be trued up as part of the cost study. Funding for the Universal Service Fund would be similar to the funding for the Telephone Relay System. From a Separations standpoint there are a few changes that would have to be made. These are:

1. Add an additional column to the cost separation output for the Universal Service revenue requirement. This would be in addition to the current Interstate, Intrastate and Local Jurisdictions.

2. Switching gross investment within the national average gross investment per loop (or some percentage thereof) adjusted for usage would be allocated jurisdictionally based on Switched Minutes of Use (SMOU) except for switching investment allocated to Universal Service. SMOU uses the same basic data as Subscriber Line Usage (SLU) except that it uses only one switching minute of use for each local minute as compared to SLU that uses

two subscriber line minutes for each local minute. Switching gross investment over the national average gross investment per loop (or some percentage thereof) adjusted for usage would be directly assigned to the Universal Service Jurisdiction.

3. Common Line gross investment within the national average gross investment per loop (or some percentage thereof) adjusted for usage would be allocated on the various jurisdictions based on SLU, except for Common Line investment allocated to Universal Service. Common Line gross investment over the national average gross investment per loop (or some percentage thereof) adjusted for usage would be directly assigned to the Universal Service Jurisdiction.

4. Transport gross investment would include, Host/Remote, Exchange Trunk, and interexchange Transport Facilities. Transport gross investment within the national average gross investment per loop (or some percentage thereof) adjusted for usage would be allocated to the various jurisdictions based on actual usage by investment type except for transport investment allocated to Universal Service. Since transport has three different types of investment, the usage in the cost study (for allocation on usage) would be proportional to the total (i.e. Host/Remote Cable and Wire Facilities (C&WF) is 43% of total transport facilities, then Host/Remote C&WF allocated on actual usage in the cost study would be 43% of the National average transport gross investment per loop. Transport gross investment over the national average gross investment per loop (or some percentage thereof) adjusted for usage would be directly assigned to the Universal Service Jurisdiction.

5. Wideband Facilities (T1 and greater for Special Access). Wideband Facilities investment within the national average gross investment per loop would be allocated to the various jurisdictions based on actual usage except for transport investment allocated to Universal Service. Wideband Facilities gross investment over the national average gross investment per loop would be directly assigned to the Universal Service Jurisdiction.

6. The Service Order Processing Charge would be allocated to all jurisdictions on the basis of SLU rather than being directly allocated to the Local Jurisdiction. The Service Order Processing Charge benefits all jurisdictions for new services and terminations of current service. Therefore, it is inappropriate to allocate the full cost of Service Order Processing to local. Further, cost per minute amounts are skewed to local if Service Order Processing is allocated 100% to local.

Asset contra accounts and all expenses would continue to be allocated to the various jurisdictions including Universal Service on the same basis (gross investment) and in the same manner as they are today.

As shown below, NECA would develop the nationwide average gross investment per access line for Common Line, Switching and Transport Facilities. These calculations would be performed by NECA, who would have access to this information on an annual basis.

		Total Nat'l Investment	Total Loops (Incl. Spec Acc)	Avg Cost Per Loop
Nat'l	Acct 2210	$ 56,830,864,000	140,745,396	$ 403.78
Nat'l	Acct 2230 Cat 4.13	$ 18,890,878,000	143,426,250	$ 131.71
Nat'l	Acct 2410 Cat 1.3	$ 109,076,807,000	143,426,250	$ 760.51
Nat'l	Acct 2230 Transport	$ 26,770,572,000	143,426,250	$ 186.65
Nat'l	Acct 2410 Transport	$ 13,134,741,000	143,426,250	$ 91.58
	Total			$ 1,574.23

(Source: 1993 NECA Data)

As shown below, each company would develop average costs per access line for Common Line, Switching and Transport Facilities.

Co A	Acct 2210	$	1,167,137	2,533	$ 460.77
Co A	Acct 2230 Cat 4.13	$	93,397	2,567	$ 36.38
Co A	Acct 2410 Cat 1.3	$	3,543,764	2,567	$ 1,380.51
Co A	Acct 2230 Transport	$	117,094	2,567	$ 45.61
Co A	Acct 2410 Transport	$	153,421	2,567	$ 59.77
	Total	$	5,074,813		$ 1,983.04

Co B	Acct 2210	$	329,799	650	$ 507.38
Co B	Acct 2230 Cat 4.13	$	19,129	662	$ 28.90
Co B	Acct 2410 Cat 1.3	$	681,896	662	$ 1,030.05
Co B	Acct 2230 Transport	$	111,921	662	$ 169.06
Co B	Acct 2410 Transport	$	37,231	662	$ 56.24
	Total		1,179,976		$ 1,791.63

As shown below, develop the national average usage per access line for switching and circuit equipment using Switched Minutes of Use (SMOU) for switching and Subscriber Line Usage (SLU) minutes of use for Common Line Equipment and appropriate usage factors for other equipment. These calculations would be performed by NECA, who would have access to this information.

	SLU Minutes of Use	Total Loops	Avg Ann Usage Per Loop
Interstate	386,619,574,000		
Intrastate	317,642,293,000		
Local	1,949,477,731,000		
Total	2,653,739,598,000	140,745,396	18,855

	SMOU Minutes of Use	Total Loops	Avg Ann Usage Per Loop
Interstate	386,619,574,000		
Intrastate	317,642,293,000		
Local	974,738,865,500		
Total	1,679,000,732,500	140,745,396	11,929

	Transport Minutes of Use	Total Loops	Avg Ann Usage Per Loop
Interstate	386,619,574,000		
Intrastate	317,642,293,000		
Local	584,843,319,300		
Total	1,289,105,186,300	140,745,396	9,159

(NOTE: Local Transport Minutes - Extended Area Service - are assumed to be 60% of SMOU or 30% of SLU minutes of use.)

As shown below, the average SLU and SMOU usage per company access line is developed on an individual company basis. Next, develop the company's percentage of average usage per subscriber to the nationwide average usage per subscriber. The percent developed will be used to adjust the company cost per loop for usage.

	SLU	Loops	Avg Ann Usage	Percent
Co A	30,627,793	2533	12,092	6 4 %
Co B	8,406,186	650	12,933	69 %
	SMOU	Loops	Avg Ann Usage	Percent
Co A	24,436,528	2533	9,647	8 1 %
Co B	6,683,104	650	10,282	86 %
	Transport	Loops	Avg Ann Usage	Percent
Co A	20,532,480	2533	8,105	8 8 %
Co B	5,062,644	650	7,789	85 %

Assuming that no universal service funding allocations will be provided for companies with an average, usage adjusted cost per loop less than 115% of the national average cost per loop, the following is the usage adjustment.

Calculation of Universal Service Funding Allocations Amounts for Co A:

National Average Switch Investment per Loop allocated to the Cost Study [$ 403.78 * 1.00 (High Cost Fund Differential) * .81 (SMOU Adj) = $ 327.06 (Adj National Average Investment for Switching per loop)]. Company A Average Switch Investment per Loop [$ 460.77 (Company A Avg) - $ 327.06] = $ 133.71 (Company Gross Switch Investment to High Cost Fund)

National Average Subscriber Investment per Loop allocated to the Cost Study [$892.22 (National Avg for Subscriber Carrier & Cable) * 1.00 (High Cost Fund Differential) * .64 (SLU Adj) = $ 571.02 (Adj National Average Investment for Subscriber Cable and Carrier per Loop)]. Company A Gross Investment in Subscriber Cable and Carrier per Loop [$1,416.89 (Company A Avg) - $571.02 (Adj Nat'l Avg) = $845.87 (Company Gross Investment in Subscriber Cable and Carrier per Loop Allocation to Universal Service Fund), [($845.87 * .036 (Cat 4.13 to Total CL) = $ 30.45 (Universal Service Fund Allocation Per MTS Loop to Cat 4.13)], [($845.87 * .964 (Cat 1 C&WF to Total CL) = $815.42 (Universal Service Fund Allocation Per MTS Loop of Cat 1 C&WF)].

National Average Transport Investment per Loop allocated to the Cost Study [$ 278.23 (Nat'l Avg Cost for Transport Carrier & Cable) * 1.00 (High Cost Fund Differential) * .88 (SLU Adj) = $ 244.84 (Adj Nat'l Avg Investment in Transport per Loop)]. Company A Gross Investment in Transport Cable and Carrier - [$ 105.38 (Company A Avg) - $ 139.46 (Adj Nat'l Avg) = -$ 0.00 (Company Gross Loop Allocation to Universal Service Fund). NOTE: Because the Transport Gross Investment per Loop allocated to Universal Service Fund is negative, the Subscriber Gross Investment per Loop allocated to the Cost Study would be increased by $ 139.46 and the Subscriber Gross Investment per Loop allocated to the Universal Service Fund would be decreased by $ 139.46

RECAP FOR COMPANY A

	Cost Per Loop	Loops	Cost Study	Univ Serv Fund
Switching	$ 327.06	2,533	$ 828,443	
	$ 133.71	2,533		$ 338,687
Common Line	$ 571.02	2,567	$ 1,465,808	
	$ 845.87	2,567		$ 2,171,348
Transport	$ 105.38	2,567	$ 270,510	
	$ -0.00	2,567		$ -0-
Adj Com Lin	$ 139.46	2,567	$ 357,994	
Adj Com Lin	$ -139.46	2,567		-$ 357,994
TOTAL (Difference due to rounding)			$ 2,922,755	$ 2,152,041

Calculation of Universal Service Funding Allocations Amounts for Co B:

National Average Switch Investment per Loop allocated to the Cost Study [$ 403.78 * 1.00 (High Cost Fund Differential) * .86 (SMOU Adj) = $ 347.25 (Adj National Average Investment for Switching per loop)]. Company B Average Switch Investment per Loop [$ 507.38 (Company A Avg) - $ 347.25] = $ 160.13 (Company Gross Switch Investment to High Cost Fund)

National Average Subscriber Investment per Loop allocated to the Cost Study [$892.22 (National Avg for Subscriber Carrier & Cable) * 1.00 (High Cost Fund Differential) * .69 (SLU Adj) = $ 615.63 (Adj National Average Investment for Subscriber Cable and Carrier per Loop)]. Company B Gross Investment in Subscriber Cable and Carrier per Loop [$1,058.95 (Company B Avg) - $615.63 (Adj Nat'l Avg) = $443.32 (Company Gross Investment in Subscriber Cable and Carrier per Loop Allocation to Universal Service Fund), [($443.32 * .027 (Cat 4.13 to Total CL) = $ 11.96 (Universal Service Fund Allocation Per MTS Loop to Cat

4.13)], [($443.32 * .973 (Cat 1 C&WF to Total CL) = $431.36 (Universal Service Fund Allocation Per MTS Loop of Cat 1 C&WF)].

National Average Transport Investment per Loop allocated to the Cost Study [$ 278.23 (Nat'l Avg Cost for Transport Carrier & Cable) * 1.00 (High Cost Fund Differential) * .85 (SLU Adj) = $ 236.50 (Adj Nat'l Avg Investment in Transport per Loop)]. Company B Gross Investment in Transport Cable and Carrier - [$ 225.30 (Company B Avg) - $ 236.50 (Adj Nat'l Avg) = -$ 0.00 (Company Gross Loop Allocation to Universal Service Fund). NOTE: Because the Transport Gross Investment per Loop allocated to Universal Service Fund is negative, the Subscriber Gross Investment per Loop allocated to the Cost Study would be increased by $ 11.20 and the Subscriber Gross Investment per Loop allocated to the Universal Service Fund would be decreased by $ 11.20

RECAP FOR COMPANY B

	Cost Per Loop	Loops	Cost Study	Univ Serv Fund
Switching	$ 347.25	650	$ 225,713	
	$ 160.13	650		$ 104,084
Common Line	$ 615.63	662	$ 407,547	
	$ 443.32	662		$ 293,478
Transport	$ 225.30	662	$ 149,149	
	$ -0.00	662		$ -0-
Adj Com Lin	$ 11.20	662	$ 7,414	
Adj Com Lin	$ - 11.20	662		-$ 7,414
TOTAL (Difference due to rounding)			$ 797,237	$ 390,148

The purpose of the usage adjustment is to reflect the average value associated with each subscriber line on a nationwide basis to the value associated on a company wide basis. Subscribers using more minutes of use than the nationwide average have already placed a greater value on their telephone and would be willing to pay more for the facility. A higher average usage per access line would generally reflect a larger calling area or some type of plan for greater calling area. The usage adjustment will help keep the cost per minute of use somewhat similar on a nationwide basis and encourage more usage or larger calling areas, even if local rates have to rise to include a larger calling area. Currently larger calling areas in rural areas can become too expensive for the subscriber due to the high costs allocated from the intrastate jurisdiction, thereby leaving switching plant in rural areas under utilized. Getting more usage per subscriber, will bring costs per unit down in rural areas and enhance the value of telephone service on a national scale.

PUBLIC INTEREST

Advantages Of The Plan

1. This plan takes into account the usage per access line in developing the high cost fund payments. This would allow for local rates to be based on usage (even though they would be flat rated). This would also promote less disparity in local rates between similar telephone companies and between urban and rural areas.

2. This plan levels access rates to approximately $.03 - $.05 per minute between carriers and between jurisdictions and makes the transport access charges traffic insensitive. This should attract interexchange competition in the rural toll market because the ability to "cherry pick" would be severely hampered or eliminated. The cost for urban or rural access charges per minute would be nearly the same.

3. This plan through the fact that as usage per access line increase, decreases the amount taken from the Universal Service Fund would make all carriers (Local and Interexchange) more responsible for Universal Service. Though the use of flat rate calling plans and expanded calling areas the usage per access line would increase and the Universal Service Fund requirement would decrease.

4. This plan eliminates all other types of support such as Long Term Support, DEM Weighing, RIC Charges and etc. except for Lifeline and Link-Up.

5. This plan provides for Universal Service Funding on a current basis. Therefore small companies with big expansion projects do not have to wait for two years to receive a return on the portion of their investment that is allocated to USF. The plan would eliminate the need for the 5% Limitation on the phase down of SPF.

6. This plan maintains an incentive for telephone companies to keep rural America connected.

7. This plan would eliminate any need for intrastate high cost funds.

8. This plan could be adapted to all rural areas, even those owned by large LECs. The large LEC's could break out their costs based on investment in urban (exchanges that are included in or touch any Metropolitan Statistical Areas - MSA) exchanges and rural (non-MSA) exchanges on the same basis as Part 36 Jurisdictional Separations Procedures. The USF funding for the

rural exchanges could be calculated in the same manner as the funding for non-price cap companies. There would be no Universal Service Funding for urban areas, only Lifeline and Link-Up funding calculated using a different formula. This plan would eliminate much of the implicit Universal Service Funding found today between urban and rural areas of the large LECs.

The following color graphs, based on 1994 data, demonstrate the application and effect of the Per Minute of Use Universal Service Plan.

Notes And Comments On The Graphs

1. The allocation of local loop cost to special access is based on the usage adjusted common line gross investment. It appears reasonable to allocate special access on an unadjusted basis or on the national average cost per loop. Special access on an adjusted basis would only promote bypass.

2. Graph ITCs, Inc. GRB 7, shows companies 2, 3 and 11 with very high local rates based on revenue requirement. It should be noted that all three of the companies had transport gross investment allocated to the common line because transport gross investment was below the national average adjusted for usage. Normally, no transport investment is included in the local jurisdiction except for Exchange Trunk and some Host/Remote Facilities. This could have a detrimental effect on some companies.

3. The gross investment for Tandem Switching was included with Local Switching. It could have been broken out and included with transport gross investment for calculation the USF allocations.

4. This plan currently does not include Exchange Wideband, Interexchange Wideband, or Furnished Another Company Facilities.

5. This plan does not include pay phones - those required by the State Commission's as minimum service requirements. This plan could be modified to include payphones required by the State Commissions for the provision of minimum service to rural areas.

a. Graph ITCs, Inc. - GRB 1 only includes the four major categories of expenses shown. It does not include taxes or return.

b. Graph ITCs, Inc. - GRB 2 - 8 include all expenses including taxes and return.

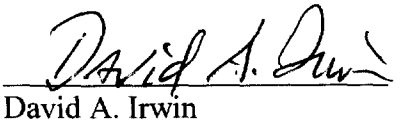
c. Graph ITCs, Inc. - GRB 10 is the allocation of gross investment.

d. Graph ITCs, Inc. - GRB 8 is average local rates per lop prior to any reductions for other local revenues which may average approximately $5.00 per loop.

e. In addition to the transport problems noted for companies 2, 3 and 11, companies 2 and 11 have high costs per loop and have taken or are taking measures to remedy this situation. All three companies have high usage per access lines of approximately 80% or more of the nationwide average usage per access line. All three companies have large calling areas and little intrastate intraLATA calling remaining after making the large calling areas local calling.

f. Graph ITCs, Inc. - GRB 12 is the expenses per dollar invested in common line, switching and transport only.

Respectfully Submitted,



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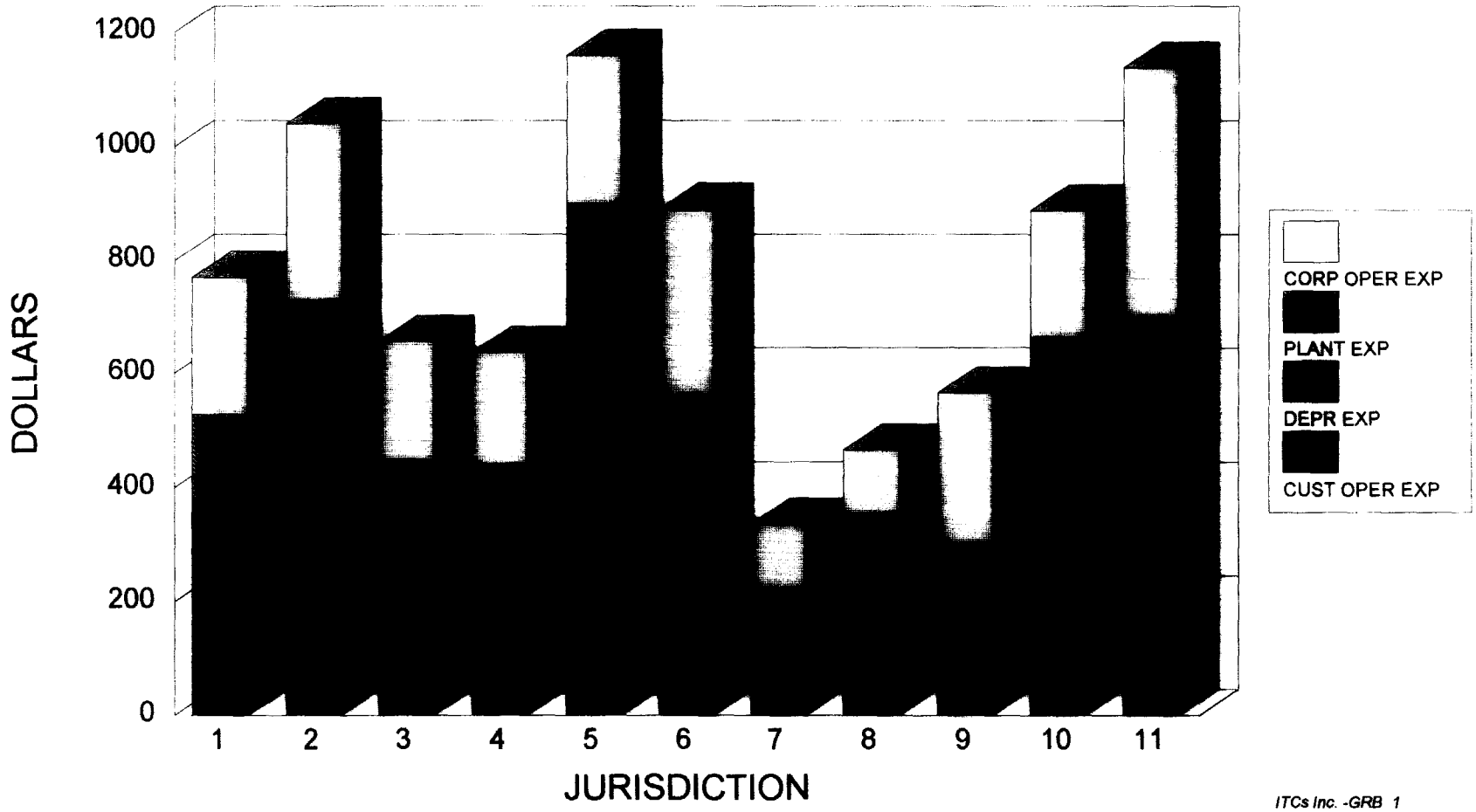
EXPENSES PER LOOP - 1994

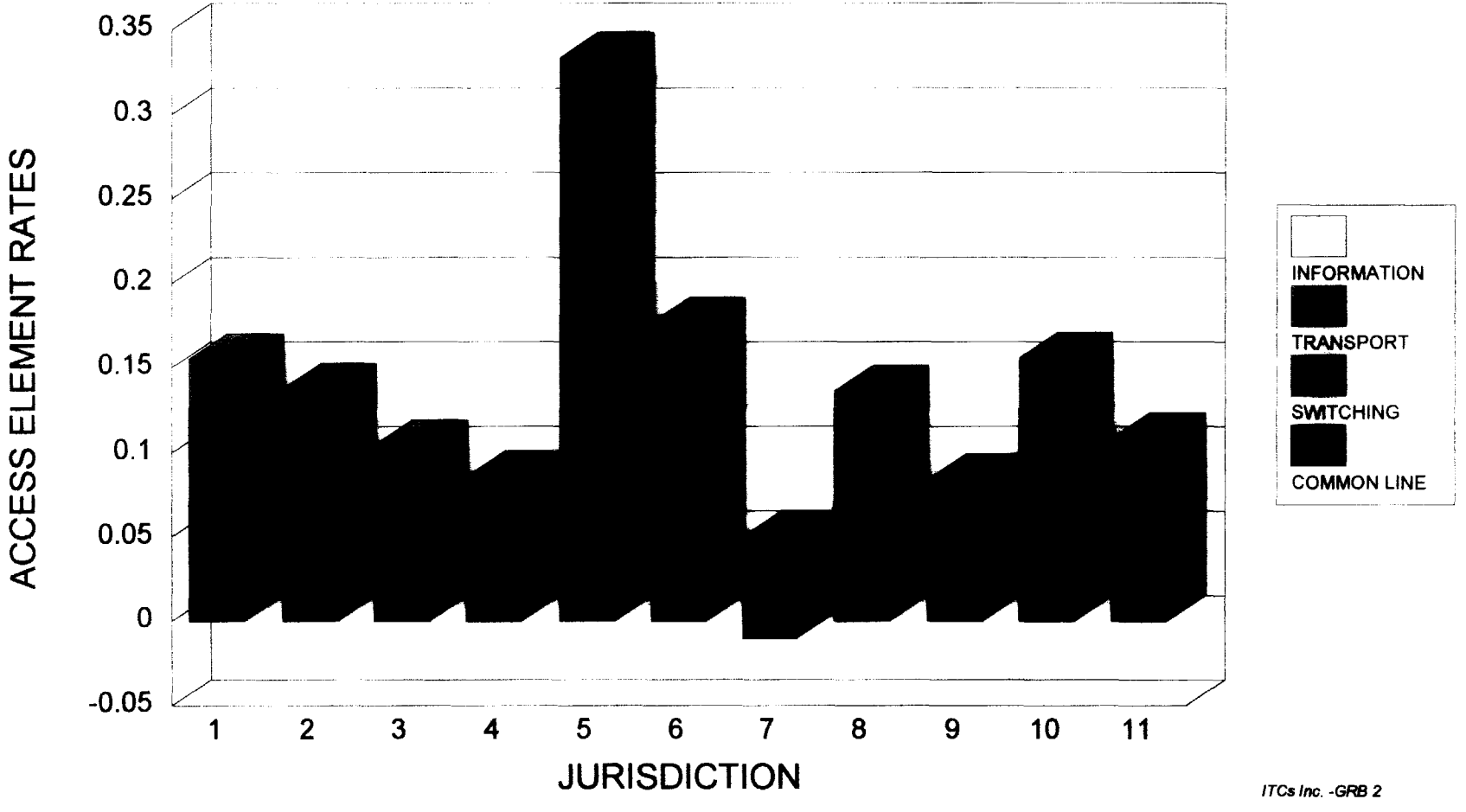
COMPANY COMPARISON



ITCs Inc. -GRB 1

INTERSTATE ACCESS RATES - 1994 -BEFORE

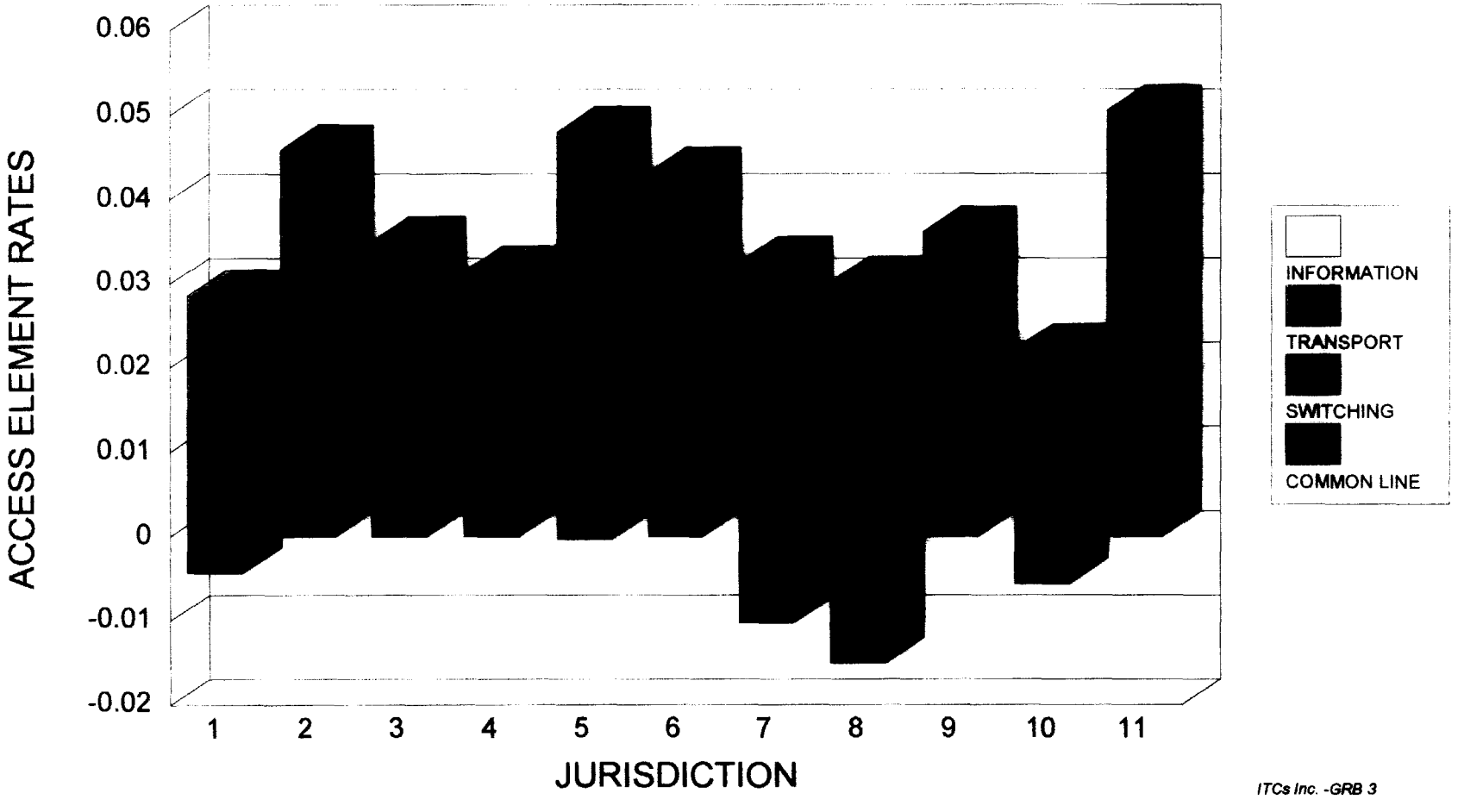
COMPANY COMPARISON



ITCs Inc. -GRB 2

INTERSTATE ACCESS RATES - 1994 - AFTER

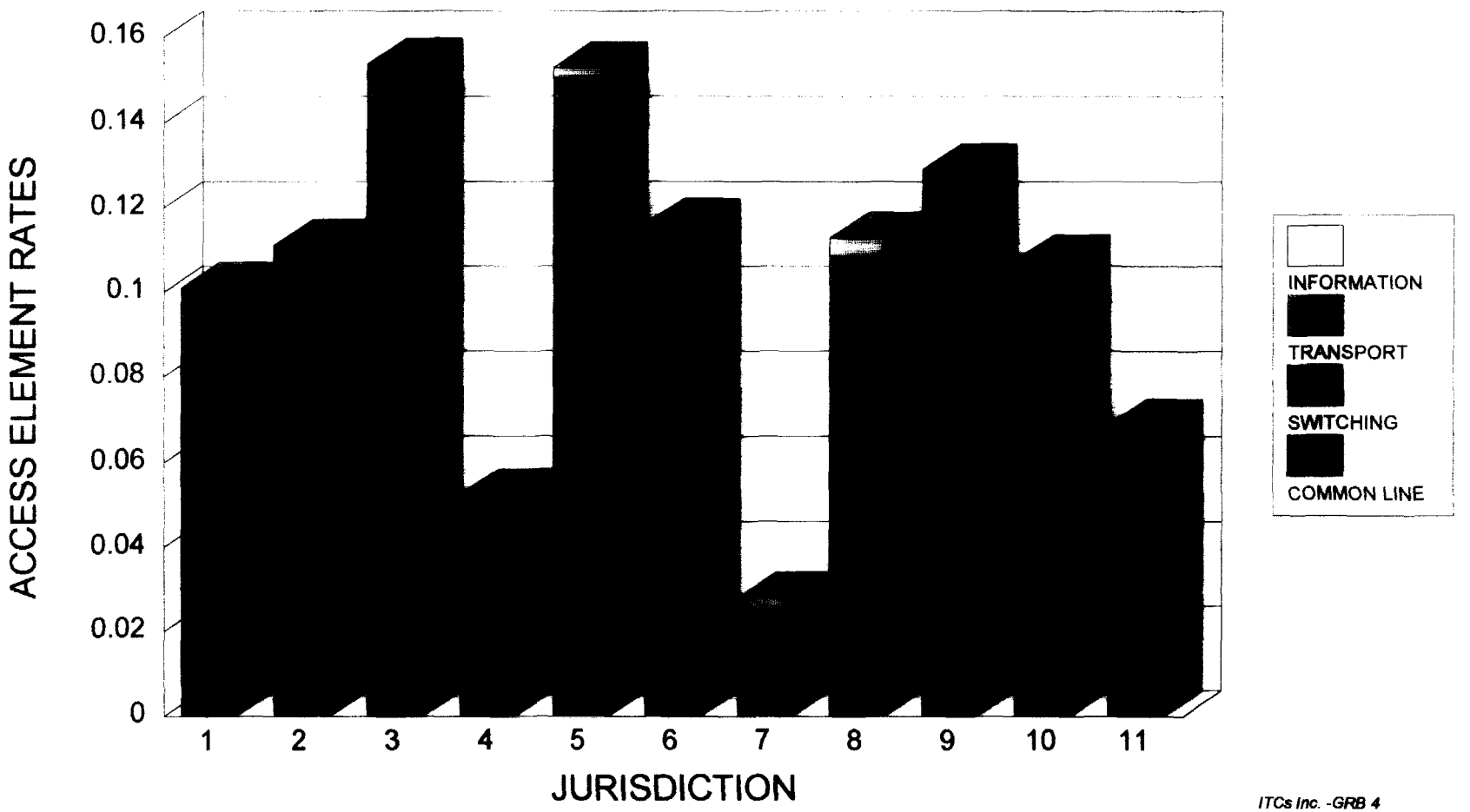
COMPANY COMPARISON



ITCs Inc. -GRB 3

INTRASTATE ACCESS RATES - 1994 -BEFORE

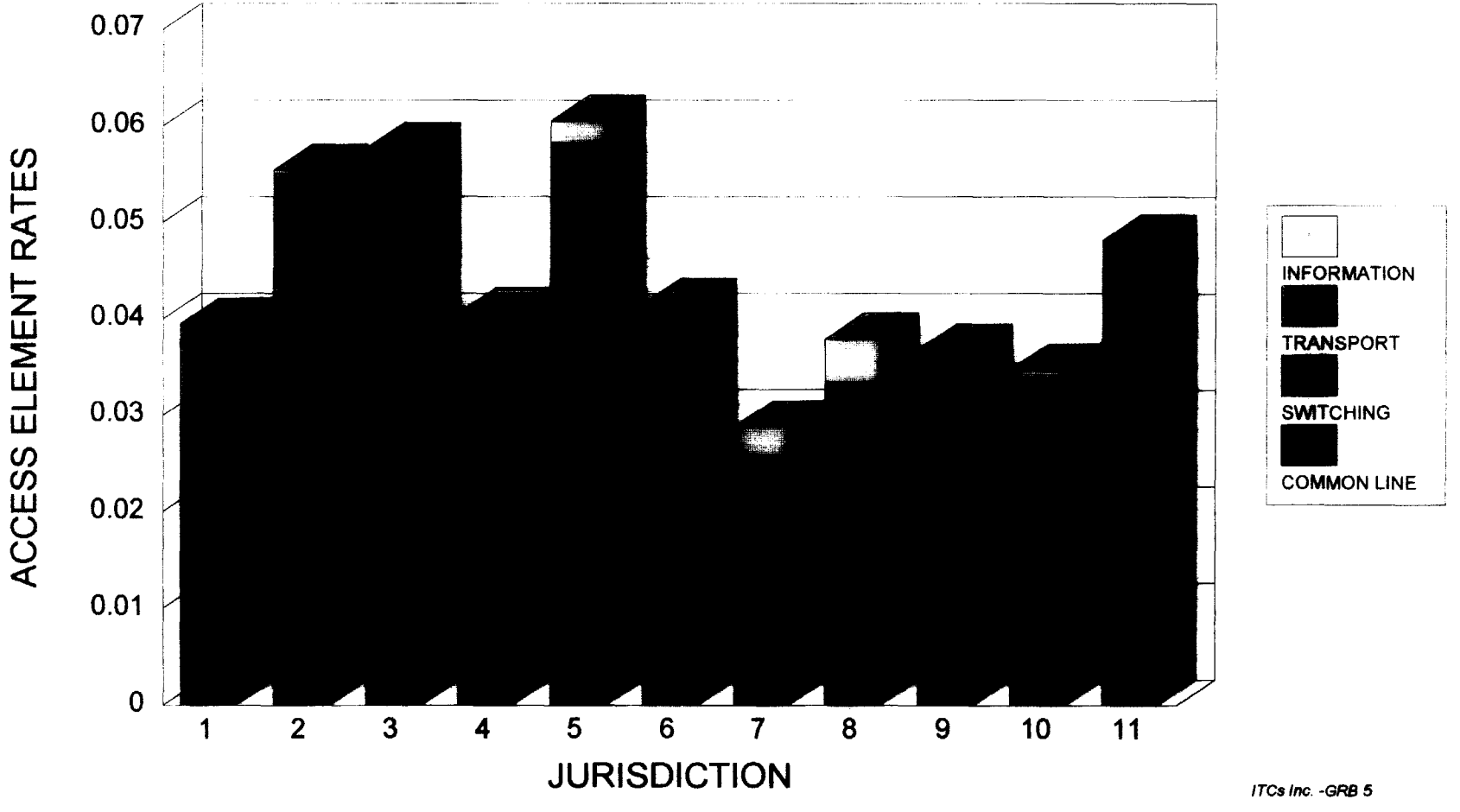
COMPANY COMPARISON



ITCs Inc. -GRB 4

INTRASTATE ACCESS RATES - 1994 - AFTER

COMPANY COMPARISON



ITCs Inc. -GRB 5